

action,” Bullard noted.

“The FOMC needs to keep its options open,” he said, adding that one way to do so is to include a press conference after every meeting. “A press conference at every meeting would likely improve Fed communications,” Bullard concluded.

Contact Us

- Laura Girresch 314-444-6166
- Anthony Kiekow 314-949-9739
- Shera Dalin 314-444-3911
- Tim Lloyd 314-444-6829

- **November 21, 2013.** Presentation. ["The Notorious Summer of 2008."](#) University of Arkansas *Quarterly Business Analysis Luncheon*, Rogers, Arkansas.
[Presentation \(pdf\) \(bullard_nwarkansas_2013november21_finalpdf\)](#) | [Press Release](#) | [Related news articles](#).

The Notorious Summer of 2008

November 21, 2013

St. Louis Fed President James Bullard offered some perspectives on the macroeconomic situation in 2008 during an event in Rogers, Ark. Bullard noted that the features he discussed—e.g., the start date of the financial crisis, lower interest rates, the oil price shock, real-time data and large financial firms—have to be addressed in any comprehensive accounting of what happened.

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_nwarkansas_2013november21_final.pdf) | [Press Release](<https://www.stlouisfed.org/news-releases/2013/11/21/st-louis-feds-bullard-offers-perspectives-on-the-macroeconomic-situation-during-2008>)

Related News Articles:

- [Fed's Bullard Says Near-Zero Main Rate Brought Unknown Results](<http://www.bloomberg.com/news/2013-11-21/fed-s-bullard-says-near-zero-main-rate-brought-unknown-results.html>), by Steve Matthews, Bloomberg.
- [Bullard: Japan's Experience Should Have Guided U.S.](http://www.bondbuyer.com/issues/122_225/bullard-japans-experience-should-have-guided-us-1057610-1.html), by Gary Siegel, The Bond Buyer.
- [Fed's Bullard Favors Central Bank Putting Floor Under Inflation](<http://blogs.wsj.com/economics/2013/11/21/feds-bullard-favors-central-bank-putting-floor-under-inflation/>), by Michael S. Derby, Dow Jones.
- [Fed's Bullard: Housing, Europe, Deleveraging Positives for Economy](<https://mninews.marketnews.com/index.php/feds-bullard-hsg-europe-deleveraging-positives-economy?q=content/feds-bullard-hsg-europe-deleveraging-positives-economy>), by Karen Mracek, Market News International.
- [Fed's Bullard - keep buying bonds as U.S. inflation muted](<http://www.reuters.com/article/2013/11/21/usa-fed-bullard-idUSL2N0J61KD20131121>), by Jonathan Spicer, Reuters.
- [St. Louis Fed's Bullard endorses Fed's bond buying for now](<http://www.bizjournals.com/stlouis/blog/2013/11/st-louis-feds-bullard-endorses-feds.html>), by Greg Edwards, St. Louis Business Journal.

St. Louis Fed's Bullard Offers Perspectives on the Macroeconomic Situation during 2008

ROGERS, Ark. – Federal Reserve Bank of St. Louis President James Bullard discussed [“The Notorious Summer of 2008”](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_nwarkansas_2013november21_final.pdf) on Thursday at an event hosted by the University of Arkansas’ Center for Business and Economic Research.

During his presentation, Bullard offered some perspectives on the nature of the macroeconomic situation during 2008, when the U.S. economy was

suffering in the aftermath of a substantial financial panic. He noted that the summer of that year has developed a notorious reputation because it preceded the September 2008 collapse of two large financial firms, Lehman Brothers and AIG International, even though the financial crisis had been underway for more than a year at that point. “The fact that the crisis had been continuing for a year without turmoil in financial markets suggested more financial stability than actually existed in the system,” Bullard stated, adding that there were no clear signs that many financial firms were about to fail catastrophically.

He noted that in August 2008, the one-year anniversary of the beginning of the crisis, it appeared that the U.S. had weathered the crisis reasonably well and that continued slow growth was likely. However, the effects of the commodity price boom that began during the preceding year contributed to a slowing economy during the third quarter of 2008, he said. “This greatly exacerbated the financial crisis and led to multiple financial firm failures.”

Fed Easing

The Federal Open Market Committee (FOMC) recognized the crisis in August 2007 and reacted using conventional tools, Bullard noted. In particular, the FOMC lowered the federal funds rate target substantially between September 2007 and March 2008 (from 5.25 percent to 2.25 percent).

“The cut in the policy rate during the September 2007-March 2008 time frame was not as good a tonic for the situation as might have been hoped,” Bullard said. Although the idea that “lower interest rates cure all” is commonplace within the Fed, “the rate cuts of early 2008 evidently did little to prevent the financial panic, and may have exacerbated the situation to some degree,” he said. In particular, they may have contributed to the commodity price boom.

Oil Prices

Anecdotal reports during the first year of the crisis suggested that some financial firms—namely, those whose portfolios based on mortgage-backed securities were souring—sought to earn substantial revenues elsewhere,

Bullard noted. He explained that the “elsewhere” may have been the global commodity markets, which boomed during the second half of 2007 and the first half of 2008. “The lower interest rates the Fed engineered seemingly encouraged this activity, as firms borrowed cheaply and attempted to profit in commodities,” Bullard said.

He cited a doubling of the price of crude oil in the span of about 10 months. “This oil price shock contributed to the slowdown in the U.S. economy in the second half of 2008,” Bullard said.

Real-Time Data

While the National Bureau of Economic Research’s Business Cycle Dating Committee later named December 2007 as the beginning of the recession, during 2008 there was a debate as to whether the U.S. was in recession or not. “Based on the data at the time, the outcome of that debate was far from clear,” Bullard said.

“As of early August 2008, the growth picture for the U.S. economy according to available real-time data was relatively good,” he noted. Estimates of real GDP growth were modest but positive for the fourth quarter of 2007 and the first and second quarters of 2008. “There was no recession according to the conventional definition of two consecutive quarters of negative GDP growth,” he said, although he added that by current data, real GDP growth in the first quarter of 2008 was steeply negative.

Thus, there was a good case to be made during the summer of 2008 that the “muddle through” scenario would continue through the end of the year, Bullard said. Higher oil prices, however, began to have effects on the economy. For example, Bullard cited light motor vehicle sales, which were at an annual rate of close to 16 million at the end of 2007 but had fallen to an annual rate of close to 13 million by July-August 2008.

“Forecasters started to realize that the economy was slowing more appreciably than had been expected,” Bullard said. “The slower economic growth made the financial crisis much worse.”

Bear Stearns

In discussing the impact on financial firms, Bullard recalled the Bear Stearns crisis and how J.P. Morgan Chase purchased the failing firm with assistance from the Fed in March 2008. At the time, Bear Stearns was the smallest of the five large U.S. investment banks.

Bullard cited two problems with the Bear Stearns deal. One was that it suggested even larger financial firms than Bear had some form of implicit insurance from the Fed. “In the absence of any formal policy announcement, it was unclear whether the Fed had the intention or the wherewithal to offer insurance to such a large group of firms,” he said.

The second problem with the deal, according to Bullard, was that it was successful in the sense that market volatility declined substantially afterwards. “This success suggested that the Fed could buy time to allow the economy to get past the financial crisis by encouraging stronger firms to buy weaker firms in imminent danger of failure,” Bullard said. “This ‘marriage model’ might have worked, had there not been so many marriages to arrange,” he added.

Lehman-AIG

Turning to the failures of Lehman and AIG, Bullard said, “The Lehman failure by itself was not particularly surprising and the U.S. economy could have coped with this single event.

“What was relatively surprising was that AIG, one of only a handful of triple-A-rated firms in the U.S., was also in incredibly deep trouble,” he added. Bullard noted that this brought all financial firms under vastly increased suspicion and drove the financial crisis from mid-September 2008 onwards.

“We will do history a favor if we refer to this event as ‘Lehman-AIG’ and not just ‘Lehman,’” Bullard said.

Near-Zero Interest Rates

In the midst of the crisis, the federal funds rate began trading near zero. In December 2008, the FOMC changed the target policy rate to a range of 0 to 0.25 percent, where it remains.

“The debate over the wisdom of locking in near-zero rates did not take sufficient account of the experience in Japan, in my view,” Bullard said. The Bank of Japan lowered its policy rate to near zero in the 1990s, and short-term rates in Japan remain at zero today.

Bullard noted that some analysis suggests that the sooner policymakers set the policy rate to zero, the sooner the economy will recover and the sooner interest rates can be returned to normal. “I have seen no evidence that this is true during the last five years,” he said. “Instead, I think the December 2008 FOMC decision unwittingly committed the U.S. to an extremely long period at the zero lower bound similar to the situation in Japan, with unknown consequences for the macroeconomy,” Bullard cautioned.

Overall, he noted that the events of 2008 are likely to be studied for decades to come. The features of the macroeconomic situation that he discussed “have to be addressed in any comprehensive accounting of what happened,” Bullard said.

Contact Us

- Laura Girresch 314-444-6166
 - Anthony Kiekow 314-949-9739
 - Shera Dalin 314-444-3911
 - Tim Lloyd 314-444-6829
- **November 1, 2013.** Presentation. ["The Tapering Debate: Data and Tools."](#) Financial Forum, St. Louis Regional Chamber. [Presentation \(pdf\)](#) ([bullardstlregchamberfinancialforum1november2013finalpdf](#)) | [Press Release](#) | [Related news articles](#).

The Tapering Debate: Data and Tools

November 1, 2013